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How to redesign a rent rebate system? Experience in the Netherlands

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ABSTRACT

In 2006, responsibility for implementing the Dutch housing allowance system was transferred from the Ministry of Housing to the Tax Authority. It has since been renamed, and is now known as the ‘rent rebate system’. A number of dilemmas have become evident since the 2006 changes. Attention has shifted to how to implement the system effectively: how to limit the overconsumption of housing services, how to avoid moral hazard, how to reduce outright fraud, how to reduce the poverty trap, and how to prevent the escalation of public spending. These new dilemmas have led to the central research question in this article: how to redesign a system of rent rebates? The discussion of these dilemmas points to further changes. Proposals for a redesign of the rent rebate system in the Netherlands are presented. These proposals could also be relevant for other countries.

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Fraud; housing allowances; moral hazard; overconsumption; poverty trap; the Netherlands

1. Introduction

In the post-war years, the Netherlands was hit by a serious housing shortage—the inevitable consequence of the suspension of building projects and of the mass destruction of homes in 1940–1945. The housing crisis deepened in 1945–1948, when the shortage of dwellings rose. The government tried to speed up the supply of new housing by introducing supply side support consisting of public loans and property subsidies (Priemus *et al.*, 2005). Over time, as new housing projects were completed and the shortage eased, the national budget became overstretched. The downside of this type of support was argued, firstly, that it failed to address the plight of low-income households and, secondly, that it led to low rents which distorted the housing market.

A system of housing allowances was duly launched in 1970 as a partial arrangement, and was later extended into an overall entitlement for households for both social and commercial renting. This change from property subsidies to housing allowances was also prompted, to some extent, by the desire to cut public spending (Priemus, 1984). The scene was set for

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the development of the housing allowance system into a full-fledged instrument designed to ensure housing affordability in the rental sector.

As of 1 January 2006, the way the system was implemented changed. The implementation of the housing allowance system transferred from the Housing Ministry to the Tax Authority (Nationale ombudsman, 2006). Since the Tax Authority comes under the responsibility of the Ministry of Finance, the State Secretary for Finance took on the primary responsibility for managing rent rebates and ensuring the proper functioning of the system—and hence also for the policy on combating fraud and abuse, while the Housing Ministry remained responsible for the development of the rent rebate policy. Because politicians have interpreted these changes largely as technical adjustments in the implementation of the system, there has been limited controversy or debate (Priemus & Elsinga, 2007, p. 202).

Since 2006, however, new implementation dilemmas gave rise to questions about the effectiveness of means testing and of the data checks in the system of rent rebates: how to limit the overconsumption of housing services, how to avoid moral hazard, how to reduce outright fraud, how to reduce the poverty trap and how to prevent an escalation of public spending. The discussion of these dilemmas that have been raised in the Netherlands since 2006 offers ingredients for answering the central research question of this paper: how to redesign a rent rebate system?

Before looking in closer detail at these dilemmas, we will first specify the policy goals involved and some of the relevant political choices that were made in the design of the Dutch rent rebate system (Section 2). The policy dilemmas that have arisen since 2006 are mostly related to the implementation of the rent rebate system. In Section 3, we analyse these dilemmas in a general sense based on our literature study. In Section 4, we describe these dilemmas that have arisen in the Netherlands since 2006 and the policy responses. In Section 5, we propose a further redesign of the Dutch rent rebate system and we formulate some general conclusions in Section 6.

The paper's analysis draws on policy documents and evaluations and draws on international evidence and debate on the design of rent rebate systems.

2. Policy goals and policy choices in the Netherlands

The general aims of housing allowance or rent rebate policies in developed countries may be summarised as follows (Howenstine, 1986; Lucassen & Priemus, 1997; Van der Schaar and Kromhout, 2007):

- (1) to serve as a safety net and a way of maintaining the affordability of housing: to prevent current housing becoming unaffordable, for instance if a household suffers a sudden drop in income;
- (2) to improve housing quality and induce positive external effects;
- (3) to widen choice within the market, for households with residential mobility plans;
- (4) to reduce the spatial concentration of lower income groups at the cheap end of the market and promote a social mix in the medium-priced segments.

In this section, we describe how and to what extent the system of rent rebates serves the first of these goals. Improving the quality of housing and household choice and preventing segregation are the focus of Section 4, where we will discuss the policy choices that the Dutch government made with regard to the dilemmas that are central to this article.

The policy goal of affordability became a realistic goal in 1984, when the Dutch system of housing allowances was formalised in the Housing Allowance Act. During the same decade, the constitution was amended to incorporate an article which states that the State has a duty of care to provide housing for households with a weak position on the housing market. In due course, housing allowances—now called rent rebates—became the most important policy instrument in the rental sector, with the aim of supporting the affordability of rental housing (Van der Schaar & Kromhout, 2007).

Two policy choices were made: to include all forms of rental tenure (social and commercial) and to make housing allowance an *entitlement* once the relevant requirements were fulfilled. Households eligible for rent rebates must live in a self-contained housing unit which meets the basic quality criteria and which has a rent that is lower than the maximum rent allowed for a dwelling of that quality. If the income requirements are also fulfilled, households that apply for rent rebate are entitled to receive it. The message of the Dutch constitution and the strategic value of horizontal equity (treating those in equal circumstances in an equal manner) were convincing arguments for the broad scope and entitlement status. The design of the system remained unchanged throughout its existence, even though certain limits were adapted to cope with budgetary requirements.

2.1. How the system of rent rebates works

The rent rebate combines a maximum eligible rent level with a maximum eligible income level, depending on household composition. Figure 1 shows how the rent rebate relates to the rent of the dwelling and the household composition, given maximum income levels. Monthly rents are divided into a number of bands. The percentage of rent covered by rent

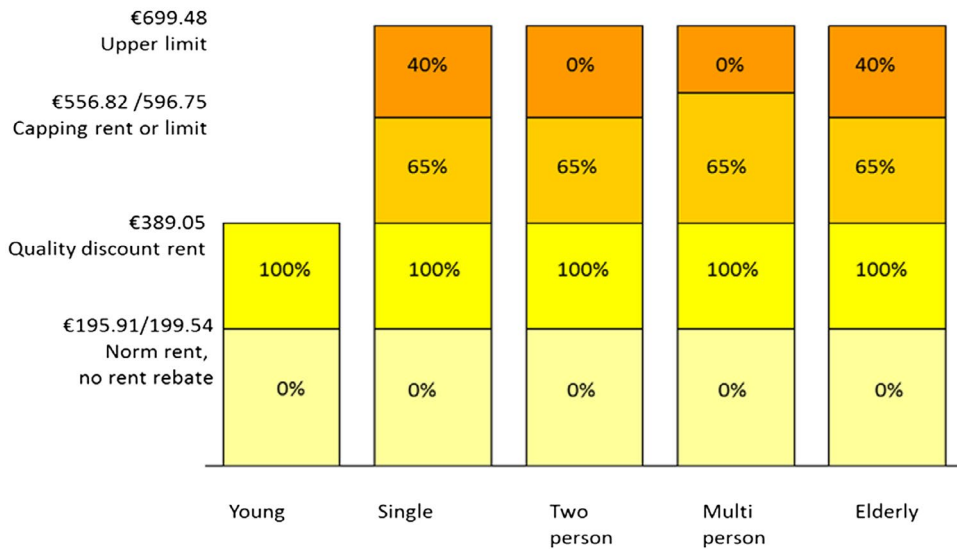


Figure 1. Rent rebate system, percentage of monthly rent covered by the rent rebate, by rent level and household type, 2014. Source: Update from Priemus & Elsinga (2007). Note: The maximum rent that can be subsidised via rent rebate is €699.48 and is called the upper limit. For young people it is the quality discount rent that is limited at €389.05. From that level upwards, for other households than the young, rents will be partially subsidised to prevent the overconsumption of housing quality.

rebate differs with each band. The system starts with a standard amount of rent that all households have to pay from their own pockets. No rent will be subsidised up to an amount of €196–€200 (Figure 1), depending on household composition and age. The reason for this design element was the intended relationship of the system of rent rebates with the social security system (Kemp, 2007). The rent rebate aims to help with housing costs above this basic level, because a fixed allowance for housing costs is already factored into the social security benefit (Floor, 1971; Udink and Buck, 1972). An income below the minimum level is regarded as an income policy issue that should not be addressed through housing policy (Van der Schaar & Kromhout, 2007, pp. 19–20).

Fully 100 per cent of the band up to the ‘quality discount limit’ of the rent level is subsidised (€389 in Figure 1). Above that rent level, incentives are built into the system to discourage the choice of quality requirements that are ‘too high’ (i.e. to prevent ‘overconsumption of housing quality’, see below). Up to the capping limit (€557/€597), 65 per cent of the rent is subsidised. The capping limit itself depends on the size of the household and is higher for multi-person households than for single-person households, due to the extra floor space requirements.

Rent in excess of the capping limit is paid entirely by the household itself (the maximum *disincentive for increasing housing consumption*), with the exception of senior citizens and single-person households, for whom 40 per cent of that rent band is subsidised. This is contrary to rents within the range that run from norm rent to quality discount level: there is a clear *incentive for housing consumption*, because that rent band is fully compensated (100 per cent) by the rent rebate. This implies that this is the quality level that is deemed to be acceptable for households. Rents higher than the maximum rent level of €699.48 will yield no additional rent rebate to households, even if their income is low enough.

The maximum income level set determines the target group of the rent rebate system. When all households and the target group for rent rebates were related to rent classes between 2009 and 2012, the target group for rent rebates increased by just over 100 000 households. The group of households not receiving rent rebates because their rent was above the maximum eligible rent increased by almost 35 000 households. In 2012, the rent rebate was targeted more specifically at those paying rents below the capping limit than was the case in 2009 (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2013).

In 2011, almost 1.2 million tenants received a rent rebate. This was an increase of 8 per cent in the number of households compared to the number in 2008 and it amounted to 40 per cent of all tenants in 2011. Rents, which on average amounted to €439 per month for recipients were reduced by an average of €174 per month. This resulted in an average rent-to-income ratio, after rent rebate, of 23 per cent for the recipients of rent rebates, while it amounted to 22 per cent for non-recipients (Blijie *et al.*, 2013; Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2014). This implies that average incomes among the latter group are higher than those among the former group.

2.2. Increasing costs for government

The immediate and long-term budgetary consequences of the rent rebate system are related to the nature of rebates as an *entitlement* (Priemus *et al.*, 2005). Figure 2 presents the evolution of spending on rent rebates in the Netherlands in the period from 2006 to 2017, partly determined by budgetary considerations. Government spending on rent rebates has

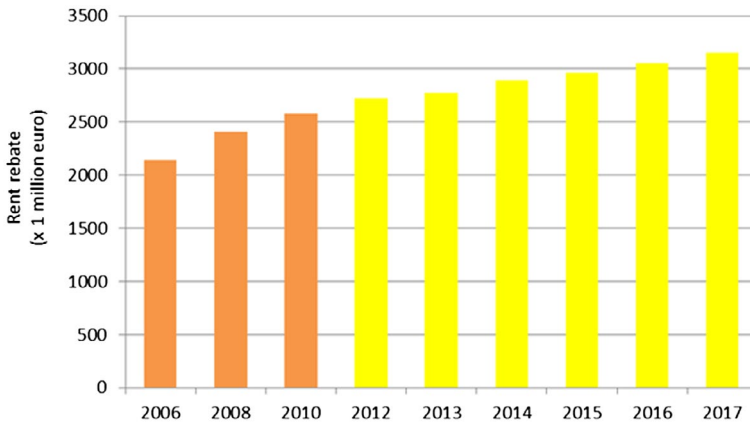


Figure 2. Rent rebates in the Netherlands, 2006–2017. Source: Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (BZK) (2013). orange bar = realised, yellow bar = projected.

risen strongly from its starting point of €2.1 billion in 2006 and is projected to rise to €3.1 billion in 2017, in order to guarantee affordability in the rental sector for the target group of rent rebates.

3. General policy dilemmas around rent rebates

3.1. Introduction

To achieve the goal of affordable housing for low-income households (previous section), some of the disadvantages or costs associated with this policy instrument must be taken into account and weighed against the benefits. The general dilemmas that have yet to be evaluated or that have arisen because of the 2006 change in the system are central in the remainder of this article. Firstly, there is the dilemma of promoting a minimum standard of quality but preventing the overconsumption of housing quality (subsection 3.2). Closely related is the dilemma of making renting affordable, but not encouraging strategic behaviour that aims to maximise the subsidy (moral hazard; section 3.3). Outright fraud by tenants and/or landlords is a small step away from strategic behaviour (subsection 3.4). Moving from the theme of subsidising rents to that of subsidising incomes, the effect of providing extra income via the rent rebate for labour market participation (poverty trap) is the final dilemma to be introduced in this section (subsection 3.5). Section 5 returns to these dilemmas and to the discussion about how they have affected the redesign of the Dutch system of rent rebates since the changes that took effect in 2006 and how they might be treated in future redesign of the system.

3.2. Overconsumption

In the domain of housing policy, higher quality and greater choice on the housing market are considered positive aspects of the public goals in relation to rent rebates (Gibb, 1995; Kemp, 2000a), while from a welfare economics point of view, overconsumption has a negative overtone when efficiency is taken into account (Barr, 1998). When the actual

rent of a dwelling is subsidised, as is the case in the Netherlands, this allows custom-made affordability on the one hand, as well as the subsidisation of the quality of housing desired by society. On the other hand, however, households may be induced to ‘overconsume’ housing quality as a result.

The issue of whether the consumption of housing services is *too* low or *too* high in specific cases involves a normative judgement. The fact is that the rent rebate is an income transfer from the state to lower income households within the housing sector that permits higher levels of consumption of housing services (i.e. of higher quality) as a result of rent rebates than is the case in an unspecified income transfer. The ‘forced spending aim’ of the rebate may be a paternalistic aspect of the system, which from a theoretical point of view does not offer the recipient the maximum choice in the consumption of housing quality. In welfare economics, therefore, *untied income transfers* or *cash transfers* are the proposed solution, since these are income supplements with no ‘strings attached’ about how they must be used. The recipient may spend the additional income as he or she wishes. Untied income transfers are thus not restrictive in terms of consumer choice. They also allow market forces to do their work and thus reflect the principles of welfare economics.

However, since government cannot require the recipient to spend the untied support in a specific way, most governments opt for a system of *tied income transfers*. In the rental sector, this income is tied to (social and/or private) rental housing and can be determined based on household income, household type and the rent of the dwelling. The overconsumption of housing services can be reduced by refraining from compensating rent and rent increases to the tune of 100 per cent. In principle, there are two policy options available: *ex post* and *ex ante* assistance. The first involves actual rents that are capped in some way—using rent caps or spending ceilings, for example, in order to limit the subsidy (Kemp, 2000a, p. 53). The second method involves adopting a notional rent which is also known as reference rent. For instance, the median rent in a housing market region, could serve as the subsidisable rent in the latter case. In that case, a household’s actual rent could be higher or lower than the median rent; the household ideally then either pays any extra amount itself, or may keep any excess, in order to maximise the shopping incentives for individual households (Allen *et al.*, 1981; Gibb, 1995; Kemp, 2000a; Priemus, 1999).

3.3. Moral hazard

Every system of subsidies has implicit incentives for ‘good’ and ‘bad’ behaviour on the part of stakeholders like tenants and landlords (manipulation of the system). ‘Bad’ behaviours (i.e. strategic subsidy-driven, behaviour which may involve going for the maximum possible subsidy) have been termed ‘moral hazard’. The nature of rent rebates as an *entitlement* may encourage moral hazard: every effort by tenants and/or landlords to increase the use of rent rebates leads to extra expense for the State. With regard to the tenants, the relationship between current (gross) rent and rent rebates may lead to strategic behaviour if they try to maximise the rent rebate they receive. The result will not only be an increase in public spending on rent rebates, but possibly also the overconsumption of housing services (the topic of the previous subsection).

If tenants are incentivised to strive for the maximum rent rebate, there is also a risk that—if there is no rent regulation—rents will be pushed up. In such a free rental market, collusion between landlords and tenants is not uncommon, particularly in the private rented

sector, the aim being to maximise both rents and rent rebates (Kemp, 2000b). Findings from empirical research suggest that landlords in different countries do indeed use rent rebates to enhance their revenues (Fack, 2006; Laferrère and Le Blanc, 2004; Susin, 2002; Wood *et al.*, 2006). This phenomenon can be countered, to some extent, by combining a system of rent rebates with the regulation of annual rent increases (Priemus & Elsinga, 2007, p. 209).

To limit the extent to which moral hazard leads to the overconsumption of housing, as described in the previous subsection, the theoretical solution is a system of rent rebates that is based on notional rents rather than on actual rents (Kemp, 2000a, p. 51). ‘While all means-tested social security benefits are subject to moral hazard to some degree, housing allowance schemes based on actual rather than notional housing costs are particularly prone to this problem’, as tenants, especially in the private rental sector will have some choice in the price-to-quality relation. Another technique for reducing the potential for moral hazard is the introduction of ceilings for housing expenditure (Kemp, 2000a, p. 53). This limits the extent to which housing allowances can lead to higher rents (or house prices) within the housing market.

3.4. Fraud

The line between moral hazard and fraud can be quite thin. Fraud will generally be related to criminal behaviour, while in the notion of ‘moral hazard’ the focus is on the policy system which may invite or encourage strategic behaviour that may or may not be fraudulent (‘opportunity makes the thief’). An example of fraud, here, is that if a household is entitled to a higher rent rebate when household income is low, the household may be tempted to estimate a lower than realistic income. In contrast, it may be tempted to move to a dwelling with a higher rent, when rent rebates rise with higher rents (moral hazard).

3.5. Poverty trap

It is not only the way that rents are defined in the system of rent rebates that may give rise to strategic behaviour; the relationship between household income and the level of the subsidy and its reduction as household income rises may also encourage strategic behaviour. This is a well-known effect of rent rebates. It is known as the ‘poverty trap’: households may actually be discouraged from seeking to improve their income through paid employment if that increase in earnings leads to a substantial cut in their rent rebate. In the event of a substantial increase, the household may even lose most of the rent rebate and be left with little extra money even though they are working more. If the subsidy is withdrawn quickly—i.e. the taper of withdrawal is steep—the poverty trap will be stronger than if this reduction is less steep (Gibb, 1995; Kemp, 2000b, p. 268; Priemus, 2004; Van Steen, 2004).

However, in the case of the Netherlands, Van der Schaar & Kromhout (2007, p. 39) have found that the impact of the system of rent rebates on labour market participation is actually not as negative as one might expect. Their finding may partly be explained by the high percentage of elderly recipients of rent rebate (about 40 per cent are 65+).

Haffner & Boelhouwer (2006) cite literature that reports mixed evidence from other countries (see Shroder, 2002). The mixed evidence may not come as a surprise, if one takes other factors into account (self-fulfilment) that may encourage people to find a job. The system of subsidisation, too, limits the scope for eliminating poverty traps. Not withdrawing

the subsidy in response to a substantial increase in income may well be seen as excessively expensive.

In the case of the USA, Brynjolfsson & McAfee (2014, pp. 237–241) suggest a switch from the Earned Income Tax Credit (EITC) for low-income households to a Negative Income Tax applicable to all households. The latter was popularised in the USA by Milton Friedman. The negative income tax would function as a guaranteed minimum income and would provide an incentive to work, since every dollar earned as gross income would increase total income (net income plus benefit). The negative income tax is generally perceived as a good strategic answer to the poverty trap, although it may be rather expensive to implement.

4. Rent rebates in the Netherlands since 2006

4.1. Introduction

In subsection 4.2, we describe the transition in 2006 from ‘housing allowance’ to ‘rent rebates’, followed by an analysis of the issues dealt with in the previous section: overconsumption in subsection 4.3, moral hazard in subsection 4.4, fraud in subsection 4.5 and the poverty trap in subsection 4.6. Subsection 4.7 deals with the problem of escalating public spending, in particular because the rent rebate is an entitlement, while rents continue to rise strongly.

4.2. Implementation: from Housing Ministry to Tax Authority

As of 1 January 2006, responsibility for implementing the system of housing allowances passed from the Dutch Ministry of Housing to the Tax Authority (Priemus & Elsinga, 2007). The system itself remained essentially the same, but on the date of the transfer the name was changed from ‘housing allowance’ to ‘rent rebate’, to signal that support for housing was one of the four rebates, the other rebates being for costs of health care, children and children’s day care. The idea behind the transfer from the Housing Ministry to the Tax Authority was to create a more transparent system that could be implemented more cost-effectively and that would allow for a more effective way of reducing the poverty trap, since the rent rebate is tied into the other three rebates (Werkgroep Uitvoering van Inkomensafhankelijke Regelingen, 2003).

So in the Netherlands, rent rebates are income-related housing subsidies operated by the Tax Authority, whereas the housing allowance system was based on income-related housing subsidies operated by the Ministry of Housing. The legal basis for the system is now formed by the Rent Rebate Act (*Wet op de huurtoeslag*), the Rent Rebate Decision (*Besluit op de huurtoeslag*) and the annual review of rent rebate limits (*Regeling huurtoeslaggrenzen*).

The transition from housing allowances to rent rebates was anything but smooth (Nationale ombudsman, 2006). In the last quarter of 2005, the number of complaints about housing allowances that the National Ombudsman received increased significantly to an average of 100 a month. Even before 1 January 2006, the date of the change, the issue of benefits being paid out incorrectly had risen. In late 2004, under the then Housing Minister, Sybilla Dekker, delays occurred due to problems with the Municipal Personal Records Database (GBA), which was linked directly to the housing benefit database. Ms Dekker temporarily severed the connection between the two administrative systems, which meant

that no control mechanism was in place (Dohmen, 2008). Later, after this connection was restored, the Ministry of Housing checked 42 000 instances of housing allowance that had been awarded in the intervening period. Repayment of those claims that had been awarded when the claim was not justified was demanded by the Minister for the first time in history (Douwes & Haan, 2005). This practice became more widespread under the new system of rent rebates after 1 January 2006, however (see below).

The National Ombudsman (2006) reported a growing sense of powerlessness and mistrust of the government among members of the public. The main conclusion was that the final phase of the process had been carelessly managed and had created problems for those in financially vulnerable situations.

4.3. Overconsumption: relaxation of allocation rules

One of the instruments that was used to counter the possible overconsumption of social rental housing was the 'suitability test' ('Passendheidstoets'). It was accompanied by the allocation standards that were specified for housing associations in the Rent Rebate Act. These instruments required housing associations to check whether rent levels would be in line with household income at the point in time when that household is allocated a social rental dwelling. The goal of combining these instruments was to prevent the recipients of housing allowance from moving into homes that were deemed too expensive. When the Tax Authority took over the administration of housing allowances in 2006 (and changed the name to rent rebates), there were insurmountable problems with implementing the suitability test, because future (rather than past) household incomes became the relevant income criterion. It was then decided to abolish the suitability test and the associated allocation standard as of 1 January 2008.

Particularly when, in 2013, the government decided to bring housing association rents into line with market levels more rapidly, questions were increasingly asked about the abolition of income requirements and rent requirements in the majority of regional allocation systems for social rental housing. There were fears of an uncontrolled increase in spending on rent rebates. Lijzenga *et al.* (2014) conducted a study and interviewed housing associations; their study showed that income and rent requirements had indeed been abolished in the allocation systems for social rental housing. Lijzenga *et al.* (2014, p. 30) concluded (in translation):

motivated by a desire to simplify complicated rent-income tables and to give tenants more responsibility for considering which rents are suitable for their income (a move away from the 'nanny state'), the majority of housing allocation systems have done away with income requirements and rent requirements. Often a portion of the stock is reserved for 'local tailor-made solutions.'

The only requirement in relation to income that applies everywhere in the Netherlands is the limit of €34 678 which has been set as maximum income for households that are allocated a social rental dwelling. This means that any household with an income below this level is eligible for a social rental dwelling with a rent below the upper limit of the rent rebate (€699.48 in 2013; Figure 1), irrespective of whether that income is at a level that entitles them to further rebates or is only marginally below the maximum threshold.

In Lijzenga *et al.*'s (2014) study, the housing associations indicated that due to the scrapping of income requirements as a criterion for social housing allocation and the lack of a

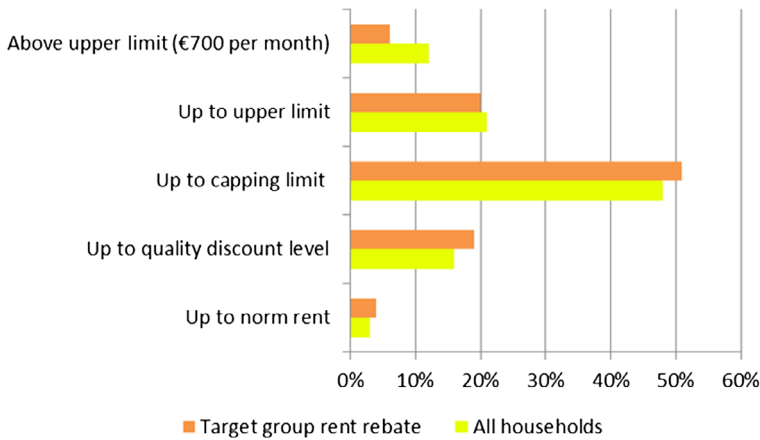


Figure 3. Households in rental units by rent band (Figure 1) in the Netherlands, 2012. Source: Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (BZK) (2013). Note: The target group rent rebate is the group of households that would be eligible to receive a rent rebate on the basis of their income.

suitability test, they are unable to ensure that the rent-to-income ratio is suitable when allocating a dwelling. The Ministry (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2014, p. 52) has shown that, in the period from 2008 to 2012, the rent-to-income ratio was too high in an average of 11 per cent of allocations. However, it may not be entirely true that the associations are unable to enforce suitability. This is because, irrespective of the lack of targeted income requirements in the local and regional housing allocation rules, housing associations were still subject to the Decree on the Management of the Subsidised Rented Sector during this period (it remained in force until 1 July 2015), which states that homes with rents below the capping limit (Figure 1) must, wherever possible, be allocated to households that are entitled to claim rent rebates on the basis of their income.

In response to this argument, housing associations indicated in Lijzinga *et al.*'s (2014) study that tenants on low incomes are often very demanding when it comes to their home and tend to opt for homes with higher rents. They subsequently make larger rent rebate claims. The results of Lijzinga *et al.*'s survey conducted among tenants confirm that tenants tend to opt for better quality housing with a correspondingly larger rent rebate than is strictly necessary. The abolition of the suitability test and the associated allocation standard for rent rebates therefore seems likely to have allowed tenants to choose better quality housing than would otherwise have been the case. In comparison with the previous regulations, this has led to overconsumption in terms of housing quality. Generally, however, the target group of rent rebates is more likely to live in a lower rent dwelling than other households, as Figure 3 shows.

4.4. Moral hazard

In the Netherlands, strategic behaviour by housing associations was observed under the old system of housing allowances: keeping rents at a level lower than the capping limit or even using a quality discount level to gain as much advantage from rent rebates as possible (Priemus, 2004). The current system of rent rebates cannot be said to have resolved this issue.

In fact, the issue seems to have become further exacerbated, since it is not the relationship between supply and demand that is decisive in determining rents, but often the possibility of receiving a (higher) rent rebate, as we show in the previous subsection on the basis of the Lijzinga *et al.* (2014) study.

The housing associations interviewed by Lijzinga *et al.* indicated that they raised rents more than under the previous regulations because they needed the extra revenue to meet the landlord levy payable by landlords who owned dwellings with rents up to the upper limit (Figure 1). The landlord levy was introduced in 2013. The associations acknowledged that it puts pressure on the availability of affordable housing for low-income tenants and the amounts being claimed in housing allowance. The municipalities interviewed by Lijzinga *et al.* (2014) indicated that in their view many housing associations were maximising their receipts from rents.

Managing rent rebate claims was not perceived as a relevant issue by the municipalities and housing associations interviewed. They regard reducing public spending on rent rebates as the exclusive responsibility of the State.

It would appear, on the basis of the interviews conducted, that neither the Association of Dutch Municipalities (VNG) nor the Association of Dutch Housing Associations (Aedes) were actively focusing on (or encouraging their members to focus on) ensuring that allocation occurs in a way that will keep spending on rent rebates at a manageable level (Lijzinga *et al.*, 2014).

Lijzinga *et al.* (2014, p. 14) draw the following conclusion (in translation): ‘For many housing associations the rent rebate is an instrument for making housing more affordable, but it also creates scope to increase rent levels’. It would therefore appear that when rents are allowed to rise in the Netherlands, rent rebates are (partly) ‘captured’ by landlords rather than by the claimants who formally receive them.

4.5. Implementation problems and fraud

Priemus & Elsinga (2007, pp. 206–207) argue that the old system of housing allowances was susceptible to fraud by tenants and landlords. They refer to a study by Van Gils *et al.* (2004), which gave an overview of the estimated scale of housing allowance rule violation in the Netherlands (see Table 1).

Some of those cases of ‘fraud’ should have been resolved since 2006, since cost-efficient administration was one of the main aims of transferring the system to the Tax Authority. It was expected that cost-efficiency would be achieved because the Tax Authority would already know the financial details (income and wealth for means-test) of households and would not be dependent on information provided by the household itself. However, the new system of rent rebates has given rise to a new problem.

Since 2006, estimated income over the year to come and not—as previously—the actual earned income of the previous 18 months has been the basis for determining the amount of subsidy payable (Van der Schaar & Kromhout, 2007, p. 25). Before 2006, the Ministry of Housing based the allocation of housing allowance on recent household income. This information was checked before the housing allowance was allocated. The Tax Authority bases the allocation of a rent rebate on the expected income in the year to come. This can only be checked after that year has passed. Essentially, this means that rent rebates are allocated without having been checked (Dohmen, 2008). It is only after some time has

Table 1. Estimated scale of violation of housing allowances rules in the Netherlands, 2004 ($n = 1,238$).

	%	Number
<i>Rules relating to the housing situation</i>		
Do more people actually live at this address than are registered with the municipality?	3.6	30,448
Do you let out rooms in your home without informing the municipality and the Housing Ministry?	1.4	11,841
<i>Rules relating to statement of income</i>		
Have you or any other members of your household failed to declare income to the tax authorities in the past two years?	10.2	86,270
<i>Rules relating to the statement of assets</i>		
Do you or any other members of your household have assets that are not known to the tax authorities?	6.1	51,593
Do you possess any assets abroad, such as a second home or a savings or investment account, that are not visible to the tax authorities?	5.2	43,981
When the means-testing date is approaching, do you withdraw money from your savings or investment accounts to remain below the upper means-testing limit?	2.4	20,299
<i>Social circle</i>		
Do you know anyone who receives a housing allowance but who, in your opinion, is not entitled to it?	12.6	106,569

Note: It is not possible to add up the percentages of the various violations to obtain a single all-encompassing measure for the scale of violation.

Source: Van Gils *et al.* (2004), cited by Priemus & Elsinga (2007), p. 207.

passed (and after the rent rebate has already been paid out) that cases of wrongful claims can be verified, leaving the Tax Authority to reclaim rent rebates that have been allocated on the wrong grounds. Recently, such cases have amounted to some 30 per cent of all cases (Moerman & Oberzaucher, 2014).

Three implications can be identified:

- (1) The costs of implementation are higher than anticipated.
- (2) A proportion of the demands for repayment will not be successful because some households will have moved and cannot be reached.
- (3) The relationship between rent rebates and housing has been weakened. At the end of the day, some households will be unable to repay wrongly allocated rebates because they will already have spent the money on non-housing-related expenses.

The new procedure adopted by the Tax Authority also appeared to include opportunities for outright fraud, not only by Dutch citizens, but also by foreign claimants. One case widely publicised in the press involved large-scale rent rebate fraud. Six suspects were tried in the 'Bulgarian fraud' case in 2015. Jorritsma (2015) explains in a newspaper article (in translation):

They robbed and plundered their way through the Dutch social security system. They cooperated in the most perverse fashion, fraudulently claiming €10 million in healthcare allowance, rent allowance and child care allowance over a period of more than a year.

The authorities had paid out €5.6 million in benefits and allowances in this case. The main suspect worked from an office from which he submitted a total of 1050 applications between 2011 and 2012, all of them fraudulent. This case exposed the vulnerability of the Netherlands' benefits system in early 2013 and led to the resignation of the state secretary responsible, Frans Weekers. This experience once again shows that *the way the system of rent rebates is implemented* is crucial. It is important to determine whether there is a risk of abuse in the system.

Reclaiming rebates that have already been paid out can cause the tenants concerned to take on increasing amounts of debt and, in the end, push them further into poverty. In 2011, the tax authorities tried to reclaim about one-third of provisionally allocated rent rebates without providing any option for repayment over a longer period. An examination of household income in the 18-month period preceding the application, in combination with the rent mitigation procedure, which was the approach taken by the Dutch housing minister before 2006, would have prevented this. Under this procedure, the social landlord received the rent rebate directly from the Ministry of Housing, and the tenant paid the net rent (gross rent minus rent rebate) to the social landlord.

4.6. Reducing the poverty trap

The poverty trap can be expressed in terms of the ‘marginal pressure’ that reveals the percentage rate at which disposable income rises as gross income rises, while the subsidy tapers off (Werkgroep Uitvoering van Inkomensafhankelijke Regelingen, 2003; Van Steen, 2004). Such a calculation needs to take account of tax rates, tax credits, health care benefits, pension contributions (employee’s share), child-related benefits and rent allowance. One of the reasons for combining the various types of rebates and for having them implemented by the Tax Authority as a single allowance was to really get to grips with the poverty trap and to improve efficiency. However, it is difficult to win the fight against poverty using an income-dependent rebate, because the dilemma remains: too much help will reduce claimants’ working hours (Dekker, 2006).

To counter the income dependency of an allowance, the idea of a basic income as an alternative and income-independent option to reduce the poverty has been raised again in Dutch academic debates since the 2008 economic crisis. However, Gradus (2015, p. 256) attributes a number of disadvantages to this approach (in translation):

There are inherent objections, both practical and fundamental in nature, to the notion of a basic income. An analysis of recent proposals shows that an acceptable basic income is not affordable, and that a lower level only leads to all sorts of exceptions and bureaucracy. But more importantly, it ignores the principle that everyone contributes according to their ability to pay, and it is diametrically opposed to the principle of an activating social security system. Moreover, this actually increases the government’s role, while the whole point was to reduce government control of society and the economy.

4.7. Escalating public spending

The fact that the rent rebate is a constitutional entitlement for tenants in both social and commercial rented housing guarantees a high level of horizontal equity within the rented sector. However, it also caused an escalation in public spending, particularly in combination with the triple recession that the Netherlands has passed through. The global financial crisis hit the Dutch economy very hard between 2008 and 2013, including the housing market. Austerity measures were needed and even the mortgage interest tax deduction that is available for homeowners with a mortgage, which government did not intend to modify, could not escape these measures. The same is true of the budget for rent rebates (Oxley *et al.*, 2015). The Ministry of Housing’s 2011 budget reduced the amount spent on rent rebates by the sum of €52.8 million in 2012, rising to €175.8 million in 2015. But the scale of these cuts

was soon accelerated when the austerity policy had to be tightened in 2012: €100 million, rising to €157 million in 2015. The so-called quality discount was raised by 10 percentage points from 25 to 35 per cent with effect from 1 January 2012 as part of this tightening (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2011, p. 2). This implies that the amount of rent subsidised in the range from the quality discount rent to the capping limit decreased from 75 to 65 per cent (Figure 1).

For households that include several individuals below the age of 65, an increase in the quality discount in excess of the cap was no longer possible: the discount for these households was already 100 per cent. In cases where rent in excess of the cap was still being subsidised at 50 per cent, this subsidy was reduced to 40 per cent with effect from 1 January 2012. This applied to households in which one individual is aged 65 years or above, single-person households and households living in a home customised for disabilities. Finally, with effect from 1 January 2012, there was an increase in the standard rent on which the basic rent is calculated.

These measures have helped to bring public spending under control. Since 2013, however, in a further effort to align social housing rents more closely to market rents, rents in the social rented sector, which are regulated by central government, have been increased annually by a percentage that is well above inflation (Oxley *et al.*, 2015). In 2013, the average rent increase (including rent harmonisation upon change of tenant) was close to 5.0 per cent in the rented sector (CBS, 2015). This policy was continued into 2014 and 2015, and has substantially pushed up public spending on rent rebates. For politicians, this is a very important reason for reassessing the policy on rent rebates. The government has presented a proposal for a new system of rent control which is to strengthen the relationship between rent and quality and also to limit rent increases in the social sector (Blok, 2015).

5. Towards a redesign of the rent rebate system

5.1. Introduction

Particularly since 2006, implementation problems in the system of rent rebates in the Netherlands have been a growing issue. This section focuses on (possible) solutions. The approaches taken may be of interest to other countries which offer housing allowances to support affordability. They are concerned with reducing overconsumption and increasing tenant choice.

The poverty trap remains a well-known problem, especially for tenants who are not retired, due to a combination of various income-related benefits. This creates disincentives to searching the housing market for a cheaper home, finding employment and entering the labour market, as well as to working more hours (for those already in part-time employment). Moreover, overspending seems to remain a likely outcome, also in the near future, even that—within certain margins—rent rebates are increasing not quite along with rent levels. There are growing concerns, in particular because current policy aims to greatly increase the rents of social rented dwellings. The link between the rent rebate and housing has also been weakened, because beneficiaries of the rent rebate receive the rebate before they are required to pay their rent increasing chances of spending the money not on rent. The Dutch government is already implementing solutions to some of the issues outlined; for others, a further redesign of the rent rebate system could improve efficiency.

5.2. Reducing overconsumption

Based on a survey among Dutch households that are theoretically eligible for rent rebates, Lijzenga *et al.* draw the following conclusions (2014, p. 45):

- Many of the tenants surveyed said that they found the starting rent for their current home excessive. They also doubted whether they would be able to pay the rent. Many said they had little choice but to accept the property that had become available. A cheaper home (of the desired quality) was often not available.
- The majority of tenants surveyed knew, when they accepted their current home, that they would be entitled to rent rebates and (approximately) how much this would be. For more than three quarters of this group, the fact that they would be entitled to rent rebates was a decisive factor in selecting their home.
- Almost 80 per cent of this group would not have been able to afford their home if they had not been entitled to rent rebates.
- The picture that is often painted by housing associations of tenants on low incomes who often opt for a property of a higher standard, and therefore a higher rent, and who do not hesitate to use their entitlement to rent rebates to top up their rent, was confirmed by the survey of tenants. However, this must mostly be considered the result of a lack of differentiation in the supply available on the housing market rather than the result of a free choice.

As of 1 January 2016, with other changes made to the Housing Act of 2015, the suitability test has been reintroduced in the allocation of housing. Households that are eligible for a rent rebate may, in principle, only be assigned social housing if the rent is lower than the capping limit (€557/€597 per month; Figure 1). This will reduce the risk of housing becoming unaffordable for households living on low incomes, notwithstanding the effect of rent rebates. Furthermore, the burden of rent rebates on the public purse will also be contained to some extent. This would be a way of reducing the overconsumption of housing services. This is illustrated by Lijzenga *et al.* (2014, p. 14), who explain that a number of Dutch housing associations have investigated the possibility of offering new housing units that are smaller and less luxurious. This would make it possible to rent out these dwellings at rents below the capping limit. In addition, some housing associations indicate that they will be less inclined to demolish existing social housing.

An obvious further improvement of the implementation of rent rebates could involve restoring the link between rent rebates and actual household income. An agreement could be made with the housing associations that the Tax Authority will pay rent rebates directly to housing associations, so that tenants only need to pay the remainder of their rent. This would strengthen the link between housing and rent rebates considerably. In the most recent year to have been assessed by the tax authorities. Prior to 2006, this 'rent mitigation' procedure in the Netherlands produced favourable results, as this limits the likelihood that too much will be awarded in rent rebates, and that this will have to be recovered at a later stage. It would also make explicit whether tenants will be able to afford current rents in combination with the rent rebate system (Haffner & Boumeester, 2014).

5.3. More responsibility for the tenant: notional rent

A solution to current implementation problems could be achieved by switching to a system of rent rebates that is linked to a reference rent, such as the average or median rent in the housing market region, corrected for housing quality. This step would have a number of advantages as is elaborated in subsections 3.2 and 3.3. In theory, it would ensure that low-income households take more responsibility for their housing choices. On the other hand, it would be expected to reduce moral hazard in the sense of less reason for tenants and landlords to collude to achieve the maximum subsidy and less overconsumption of housing services, as tenants would then be encouraged to shop around for the best value housing in their situation.

It would also reduce strategic rent-setting behaviour by landlords (moral hazard). Both of these reductions would help to keep public spending on rent rebates under control. It remains to be seen to what extent rent will remain affordable.

6. Conclusions

In general the rent rebate system in the Netherlands is targeted at a number of positively perceived policy aims: improving affordability for low-income households (targeted instrument), decreasing market distortion in comparison to** supply-side subsidies, promoting good housing quality (including positive external effects), increasing housing opportunities for households with plans to move. It must be concluded that the rent rebate does indeed allow low-income households a chance to acquire affordable and good-quality housing. It also makes a large part of the rental housing stock accessible to those households that, in terms of income, are eligible for rent rebate.

Rent rebates have become increasingly crucial as an instrument of housing policy in many European countries. This is certainly the case in the Netherlands, where they have been the core housing instrument since the 1980s. If means-testing procedures work effectively, rent rebates can be targeted specifically at households that are in need, as is the case in the Netherlands. It is, however, not easy to design or redesign a rent rebate scheme as part of a national housing system. Many modalities must be determined by political decisions. The relationship with social security, rent policy, and affordability criteria is key. The impact on public spending, in both the short and the long term, is another crucial factor. There will always be a trade-off between budgetary control by the state and safeguarding the affordability of housing for tenants on lower incomes.

The transfer of income-related subsidies from the Ministry of Housing to the Tax Authority in 2006 led to new discussions in relation to rent rebates in the Netherlands. The use of income projections (instead of past household income) in combination with the option of demanding repayment if these estimates turn out to be incorrect, has created a new paradox. A subsidy that is designed to make rental housing affordable may in fact push households further into poverty, due to the administrative complexities involved. This is an urgent reason to revise the rent rebate system, to consider a repayment in parts, more closely allocating dwellings according to income and basing the amount of rent rebate on past income.

Furthermore, a move from basing rent rebates on the current rent to an average or median rent in a particular region (a notional rent) could reduce the overconsumption of

housing services, in particular if reference rents are combined with a maximum rent limit in the allocation of a housing unit. At the same time, this could also safeguard a reasonable degree of affordability for rental housing, while maintaining enough choice for households and providing an opportunity to improve housing quality. Notional rents allow a situation that permits a degree of paternalism by the State, when setting the norms for tying rent rebates to the function of housing, but at the same time they would allow tenants a greater role, with more responsibility and freedom of choice.

The housing market behaviour of tenants who receive rent rebates is certainly a topic that needs more research. Throughout the world, a large body of knowledge has been accumulated on housing allowances, rent rebates and housing vouchers, and ex-post evaluation has increasingly been conducted by independent researchers. It is useful to share experiences at international level and to invest in mutual learning processes.

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